

Fiscal Year 2013 Operating Budget
UM

Preliminary FY2013 budget information was presented to the Board as an information item at both the February and April Board of Curator meetings. Today the Board will be asked to approve the FY2013 Budget.

Attached is the recommended action followed by supporting narrative and FY2013 summary budgets by fund group by campus.

No. 1

Recommended Action - Fiscal Year 2013 Operating Budget, UM

It was recommended by the respective Chancellors, endorsed by President Wolfe, recommended by the Finance Committee, moved by Curator _____ and seconded by Curator _____, that the following recommendations be approved:

- that the President of the University System be authorized to develop the FY2013 budgets in accordance with the attached planning assumptions and financial summaries which include the allocation of FY2013 recurring state appropriations less 3.0% statutory withholdings and spending restrictions imposed by the Governor as follows:

FY2013 Gross Appropriations

General Operations	\$398,000,626
UMKC MSU Pharmacy Doctorate Program	2,000,000
Missouri Federal and State Technical Program	340,000
Missouri Rehabilitation Center	10,337,870
Missouri Kidney Program	1,500,000
Missouri Telehealth Network	437,640
Spinal Cord Injury Research	1,500,000
State Historical Society	1,427,605

- that the President of the University System be authorized to allocate one-time or recurring line-item state appropriations, net of anticipated withholdings;
- that the President of the University System be authorized to: (a) make required changes to working capital and reserve funds and (b) make supplemental allocations within the funds available to the several campuses and programs, such allocations to be made on the basis of priority and need. The President will report periodically to the Board of Curators any material changes in the sources and uses of current funds;
- that the operating budget for FY2013 and allocation as stated herein can be modified as necessary by the President to bring the same into harmony with the state appropriation as finally approved by the governor and any withholdings in excess of those shown above.

Roll call vote Finance Committee	YES	NO
Curator Downing		
Curator Goode		
Curator Steward		

The motion ____.

Roll call vote full Board:

Roll call vote:	YES	NO
Curator Bradley		
Curator Cupps		
Curator Downing		
Curator Erdman		
Curator Goode		
Curator Henrickson		
Curator Steward		

The motion _____ by a vote of _____

Fiscal Year 2013 Operating Budget

The FY2013 total revenue budget of the University of Missouri is approximately \$2.8 billion. **Table 1** shows the FY2012 budgeted total revenues, expenditures and changes in net assets compared to the FY2013 budget presented preliminarily in April and as of June 6th. These are high level estimates that continue to be refined as the budget is finalized. Revenues in total are budgeted to increase by \$28.8 million and expenditures are budgeted to increase by \$6.8 million. The FY2013 budget projects an increase in net assets of \$99.4 million, of which \$102.1 million will occur in the Loan, Endowment and Plant Funds that is offset by net asset decreases in other funds.

The FY2013 budget was based on the following planning parameters:

Revenue Assumptions:

- Decline in state appropriations for operations of 7.8% or \$30 million, based on the Governor's recommendation. Plans were made to make the necessary cuts to the budget to bring it in line with the available resources. The President made a commitment that if the funds were restored to the University's budget, they would be used for strategic investments within the University. Since that time, the Legislature has passed a budget that is basically flat. If the Governor signs the bill and the funds are released, the funds will be used for strategic investments primarily for maintenance and repair; faculty and staff recruitment, retention, and merit recognition; and,

enhancing the student experience and retention to graduation. These funds are currently budgeted on a separate line as strategic initiatives.

- Increase in net fee revenues is driven by enrollment changes related to student mix, enrollment growth, and financial aid combined with approved rate increases in tuition, supplemental course fees, and other required fees.

Expenditure Assumptions:

- Salary and wage budget increases vary by campus from a 1% increase in the salary and wage base at UMSL to 2% at MU. Individual awards will be based on merit and special salary needs due to promotion, tenure and market.
- Increased benefit costs for the medical plan and the retirement plan will be funded by an increase in the flat benefit rate assessment equal to 2% of benefit eligible salaries. The total campus assessment will increase from 24.22% of eligible salaries to 26.22% of eligible salaries plus applicable FICA charges.
- Given economic conditions, the President asked the general officers to take whatever actions are necessary to balance the budget in FY2013. Those actions that resulted in permanent budget changes are reflected in the FY2013 budget. Many actions were taken to reduce costs, including elimination of positions and activities so that the budget could be balanced and investments made in higher priority and more strategic areas.

Table 2 demonstrates the impact of these assumptions on the FY2013 budget compared to the FY2012 budget by major revenue and expense category. Each line includes rolled up budgets across all funds (unrestricted and restricted current, endowment, loan, and plant). Budgeted revenues by major source and expenditures by type are compared to the FY2013 budget as projected in April and as of June 6th. You will notice an overall refinement of our projections as described elsewhere in the narrative. What is difficult to see in the summary presentation are the strategic cuts and reallocations from lower priorities to higher priorities that have been taken.

The University's budget is grouped according to the type of funding and the purpose of the expenditures. Chart 3 shows the FY2013 budget by major fund group. Each fund group will be discussed along with its impact on the University's budget and operations.

Chart 3: FY2013 Budget by Fund Type
Chart 3: FY2013 Budget by Fund Type

Dollars in Millions
Dollars in Millions

Total Current Funds: Current funds include resources of the University that are expendable for any purpose directly related to the primary missions of the University, i.e., instruction, research, and public service, as well as related support services.

Current funds can be divided into restricted and unrestricted funds. Restricted funds are those that are restricted in use by a third party such as the donor or supporting agency. For fiscal year 2013, the University of Missouri's current funds revenue budget totals \$2.7 billion. Of the total current funds budget, 89% is unrestricted and 11% is restricted. The unrestricted current funds budget is made up of the University's operations fund, as well as the operating budgets for the Hospitals, and other unrestricted units including auxiliary enterprises, continuing education, service operations, and self-insurance funds.

Operations Fund: The operations fund is where the majority of the University's instructional and public service activities are budgeted and accounted for. The operations fund comprises approximately 40% of the institution's total budget. This is the part of the institution's budget that is funded primarily by tuition and fees and state appropriations for operations. **Table 3** shows the FY2013 Operations Fund budget as projected in February, April, and June 6th.

The FY2013 operations fund budget totals \$1.1 billion. Tuition and fees is the largest source of revenue contributing \$552.9 million net of scholarship allowances, or 50% of the total. State appropriations of \$388 million contribute 35% of the total revenue budget.

- The revenue budget includes a \$37.2 million increase in net tuition and fees driven by increases in enrollment, changes in student mix and increases in fee rates approved in February. This is up \$4.7 million since April and is due to higher than originally projected increases at MU, UMKC and MS&T offset by higher than originally budgeted financial aid at UMSL.
- Basically flat state appropriations compared to FY2012 (assuming we receive 97% of the appropriated amount in FY2013.) Changes since April include \$30 million in restored state appropriations. If received these funds will be used for strategic purposes, including critical needs for maintenance and repair, faculty and staff recruitment, retention, and merit recognition, and enhancing the student experience and retention to graduation.
- The \$26.2 million increase in compensation is driven primarily by market and merit adjustments and increased costs of medical benefits and retirement contributions. The \$3.4 million increase since April is due primarily to allocation of resources for faculty and staff to address enrollment increases offset by reductions in positions at system administration offices and on some of the campuses. Total change in compensation is 3.1% of which 38% is benefit cost increases.
- Operating expenses are made up of several types of unavoidable costs such as utilities, insurance, information technology cost increases, compliance costs, other necessary increases in the cost of ongoing operations, and additional required M&R expenditures. Also, included are one-time expenditures funded from fund balances. However, operating expenses declined overall due to the cuts taken to balance the budget. The \$30 million increase in state appropriations is budgeted on a separate line for strategic investments, which will be made if the funds are received by the University.
- The FY2013 budget includes a planned spend down of balances of \$20.4 million for one-time expenditures in programs such as Caring for Missourians, the Enterprise Investment Program, and other strategic investments.
- The operations budgets are still being refined and some shifts may yet occur in expenditure budget classifications.

Hospital Operations: **Table 4** shows the FY2013 hospital operations budget with marginal changes from FY2012. University Hospitals and Clinics contribute 24% of the total budget. Income is projected to decrease by about 3% or \$22.9 million when compared to the FY2012 budget. The FY2012 budget was more aggressive in terms of patient volume than proved attainable. The FY2013 budget is realistic when compared to FY2012 actual experience. State appropriations are projected to be flat and patient revenues are anticipated to decline by 2% or \$12.2 million.

Operating expenditures are anticipated to decrease by 1% or \$8.4 million. Mandatory transfers for debt service increase by \$4.4 million to \$24 million in FY2013. Non-mandatory transfers to the plant fund are budgeted at \$40.8 million, a decline of \$13.6 million from the FY2012 budget.

Other Unrestricted Current Funds: Other Unrestricted Current Funds are self-supporting activities or cost centers that include the activities described below. The largest source

of funds for this group is sales and services of auxiliary enterprises. The second largest is tuition and fees from continuing education activities. The 4% increase in revenues and expenditures in this group, detailed in Table 5 below, is due primarily to increased auxiliary activity related to increasing enrollments on the campuses.

- Continuing Education: The continuing education component of the budget is where most off-campus and non-credit instructional activities are budgeted and accounted for.
- Auxiliaries: Auxiliary enterprises are self-supporting activities whose services are provided primarily to individuals in the University community such as students, faculty, and staff, and may incidentally include services to the public. Examples include residential life, bookstores, parking, intercollegiate athletics and University Physicians operations.
- Service Operations: Service operations provide a specific type of service to departments or other organizational units within the University rather than to individuals. These activities are supported by internal charges to the using department. Examples include campus computing, mail operations, printing services, telephone services, and science instrument shops.
- Self Insurance Funds: The self-insurance funds budget includes medical benefits, dental benefits, educators' legal liability, medical malpractice, auto and general liability, long-term disability, and workers' compensation. Required self-insurance fund trust balances or reserves, investment earnings on those reserves, required employer and employee contributions, benefits paid from the trusts, and operating expenses of the trusts are recorded in this fund group. Self insurance funds are an important component of the budget that can have material swings from year to year based on employee benefits paid relative to required contributions to the self-insurance funds and changes in required reserve levels, all of which can cause variability in net assets.

Table 5 details the Other Unrestricted Current Funds budget for FY2013 and shows marginal changes from the FY2012 budget.

Restricted Current Funds: Restricted funds are comprised of grant and contract activities, as well as activities funded by endowment distributions, gifts, and restricted state appropriations. **Table 6** provides details of the FY2013 budget for these funds.

Restricted revenues are projected to increase by \$1.0 million in total. Current budget estimates include an increase in grant and contract revenues of \$0.4 million. The restricted grants and contracts budget is developed at a campus level and represents an estimate of the fiscal year activity of the more than 2,400 individual grants and projects that are budgeted and managed on a project by project basis. Scholarship allowances in restricted funds decrease by \$2.3 million, most of which relates to grants for this purpose, primarily Pell. Restricted state appropriations budgeted for the other Curator programs increase by \$0.8 million, driven primarily by Spinal Cord Injury Research Fund.

Loan, Endowment and Plant Funds: For this analysis loan, endowment, and plant funds have been combined due to their relative magnitude. Loan funds are used to record activity on funds available for loans to students. Endowment and similar funds includes all gifts, bequests, and other funds directed to be used to support a University program in perpetuity. Roughly 90% percent of the endowment fund is restricted for use by donors and of the remaining ten percent, most has been designated by the Board or administration for special use. The plant fund group is used to record acquisition of assets, replacement of assets, pay off debt, and record the investment in assets (equity), from both current expenditures and reserves for renewal and replacement.

As shown in **Table 7** projected decreases in revenues in the loan, endowment, and plant funds total \$10.1 million and are made up primarily by an decline of \$5.8 million in realized and unrealized gains on the market value of the endowment fund compared to the FY2012 original budget and a decline of 4.7 million in gift income.

Expenditures are anticipated to decline overall by \$32.6 million. The interest and depreciation expense are budgeted to decline \$13.7 million when compared to the FY2012 budget primarily due to capital projects, which were anticipated to be completed earlier. Interest expense is capitalized until the project is completed. Operating expenses also decline by \$18.4 million of which the primary driver is investment in capital assets. Transfers into the plant, loan, and endowment funds are anticipated to decrease by about \$9.3 million due primarily to the health system.

Budget Schedules

Schedule 1 provides the estimated FY2013 marginal changes by individual fund group and by revenue and expense category. The FY2013 budget as of June 6th is included on **Schedule 2**, and for comparison the FY2012 original budget (adjusted for the extraordinary withholdings) is included on **Schedule 3**. **Schedules 4-11** provide the FY2013 current funds budget in summary form by campus and fund.